



The Approaching Implosion of Venezuela and Strategic Implications for the United States

July 10, 2015 | Dr. R. Evan Ellis

The U.S. response to the ever deepening political and economic crisis in Venezuela, and the regime's increasingly aggressive behavior toward its neighbors and the international community, is compelling evidence that the Barack Obama administration is sincere in respecting the sovereignty of nations of Latin America and the Caribbean, and allowing the region to address its own governance issues.

While analysts in Washington, DC, and Latin America have long decried the involvement of Venezuelan officials in narcotrafficking, if assertions made by the highly credible *Wall Street Journal* prove true regarding investigations by U.S. authorities into criminal activity by Venezuelan Parliamentary Speaker Diosdado Cabello, and other top Venezuelan political and military leaders,¹ the scope of the problem that Venezuela represents for the region has reached a new low point.² Although a very different situation in a very different time, it was the 1988 indictment of Panamanian strongman Manuel Noriega on drug charges by grand juries in Miami and Tampa, FL, that paved the way for the U.S. invasion of Panama the following year.³

In the current era of U.S. respect for the sovereignty of the nations of Latin America and the Caribbean, with a very different set of considerations and strategic context, Venezuela's leadership will not come to the same end as that of Panama, holed up in a foreign diplomatic compound in Caracas while the 4th Psychological Operations Group blares rock music into their place of refuge and U.S. Special Envoy Tom Shannon negotiates their surrender. Yet, the situation is no less grave.

The Coming Crisis.

In recent weeks, an unprecedented array of former Latin American leaders have spoken out against the situation in Venezuela,⁴ reflecting the growing consensus in the region that the combination of criminality, political repression, and impending economic collapse have made Venezuela too onerous a problem for its neighbors to continue to ignore.⁵ Yet the region's sitting presidents have been notably unwilling to go beyond the cautious language of last year's Union of South American Nations (UNASUR) declaration expressing concern over the situation in Venezuela.⁶ It is not clear what they hope to achieve through their silence. As Venezuelan scholars have anticipated before and since 2012,⁷ a chaotic, violent end to the situation in Venezuela is becoming more likely with each passing day, with serious spillover effects for Venezuela's neighbors and the region.

The current regime in Venezuela is locked in an economic and political death spiral from which multiple reinforcing dynamics make it difficult to escape calamity. During 16 years of "Bolivarian socialism," anti-business policies including expropriations, price and currency controls, government corruption, and skyrocketing crime have destroyed virtually all productive activity in the country outside the oil sector. In agriculture, where producers battle government-encouraged land invasions and outright expropriations, difficulties in obtaining foreign currency to purchase supplies, and demands from government purchasing agents for kickbacks that must be paid in scarce dollars, production has collapsed, and the agriculturally rich, tropical country must now import almost three-fourths of the food that it requires to feed its people, with the result that, as the government's foreign currency runs out, Venezuela's poor find it even harder to eat.

This is precisely what is happening as declining oil production and increasing costs drive the government's principal vehicle for earning foreign currency to zero from both ends. Although oil production has long been the principal driver of the Venezuelan economy, so much of the earnings of the national oil company PdVSA have been diverted into short-term welfare programs (the "misiones") and programs to buy influence in the region such as the Bolivian Alliance of the Americas (ALBA) and Petrocaribe that the nation has neglected to maintain existing production infrastructure or invest to bring new capabilities on line to economically extract and process petroleum, such as the heavy oil found in the Orinoco tar sands.

The mismanagement of existing oil fields has inhibited production and accelerated the decline of mature fields, while deferred investments have forced the adoption practices that increase production costs. PdVSA's failure to invest in "upgrader" facilities, for example, have forced it to purchase "light, sweet" crude to mix with the heavier, sour oil from Orinoco, in order to sell it to commercial refineries. Although some oil industry experts estimate that total Venezuelan oil production may only have fallen from its pre-Bolivarian management level of 3.1 million barrels per day, to 2.6 or 2.7 million,⁸ the need to "blend up" the oil, and similar work-arounds for investments that PdVSA has not made, mean that the government receives significantly less net revenue for each barrel sold. Moreover, an increasing portion of Venezuela's production must be diverted to the People's Republic of China⁹ to pay off the \$14.5 billion outstanding balance of the \$56 billion of loans disbursed to the country during the last 8 years.

Such practices, combined with financial mismanagement, such as importing up to 40,000 barrels of refined gasoline per day to supply essentially for free to the domestic market, means that the government is rapidly running out of money. As of June 15, 2015, reported financial bank reserves had fallen below \$16.7 million, two-thirds of their level just 3 months earlier,¹⁰ with some analysts suggesting that, when adjusted for the misreporting of assets, Venezuela's true noncommitted, liquid reserves were already at zero, impacting not only the government's ability to service foreign debt and purchase factor inputs to run the economy, but also to import basic items such as food and medical supplies.

The impact of the collapse of domestic production and the nonavailability of foreign currency have become increasingly apparent in the years since the death of the father of "Bolivarian Socialism," Hugo Chavez (although the problems began long before): long lines and shortages of even the most basic consumer products;¹¹ devaluation of the official currency, the Bolivar, from a once-official rate of 2.6 per dollar, to a black market rate of more than 431 per dollar by June 2015,¹² as well as accelerating inflation, exceeding 200 percent by April 2015.¹³

In even marginally democratic regimes, a government manifesting such a gross level of corruption and incompetence in managing its economy and the well-being of its people would quickly be voted out of office. If such a government was shown to put its own people and stability at risk, the military, as guardians of public order, would step in to save the country. Frighteningly, in Venezuela, neither of these corrective mechanisms appears able to function in time to avoid tragedy.

Although independent polls show the popularity of the current government of Nicolas Maduro just above 20 percent,¹⁴ there is virtually no economic base independent of the government-controlled petroleum sector to sustain mobilization by the political opposition, nor resources to maintain an independent press to get their message out. Moreover, the current regime controls all branches of government, including the electoral court and voting registries, which appear to have been used to generate multiple electoral irregularities in recent elections.

As noted in the much discussed March 9, 2015, Executive Order by U.S. President Barack Obama imposing sanctions on seven Venezuelan officials,¹⁵ the Maduro regime effectively has criminalized opposition. The government has used its combined ability to pass laws in the national legislature, to decide who to prosecute and to determine the outcome in the judiciary, and to jail opponents of the regime, while turning a blind eye to, and perhaps facilitating violence by, pro-government gangs against political protests.

Further complicating the situation, the already handicapped Venezuelan opposition is undercut by internal divisions, riven by conceptual differences over whether it merely faces a corrupt and entrenched government on an uneven playing field, or whether the government is fundamentally undemocratic, and cannot be engaged through electoral processes.¹⁶

A defining moment for such differences was when the opposition's centrist candidate for the 2013 presidential election, Henrique Capriles Radonski, was widely perceived to have had the election stolen from him, with numerous anomalies such as districts reporting statistically improbable near-100 percent majorities in favor of the government candidate, plus highly padded voting rolls, with some districts reporting "more voters than population."¹⁷

The split within the opposition regarding how to proceed was further highlighted in 2013, when its official umbrella organization, the *Mesa de la Unidad Democratica* (MUD) refused to align itself with the so-called "Saliada" activities lead by opposition figures Leopoldo Lopez, Maria Corina Machado, and Antonio Ledezma, and more recently in May 2015, when the MUD declined to rally in support of a hunger strike by the now jailed Leopoldo Lopez and Daniel Ceballos.

Beyond the scope of democratic alternatives, Venezuela's military leadership appears to have become too compromised through the involvement of some in criminal activities to intervene to restore the lost democratic order. As highlighted by a May 18, 2015, article in *The Wall Street Journal*, U.S. authorities currently are pursuing credible evidence that Venezuela's military

leadership, plus political leaders at the highest level such as parliamentary head Diosdado Cabello, are deeply involved in narcotrafficking. If true, Venezuela's military leaders have every incentive to avoid a return to democracy and an associated resumption of cooperation with international law enforcement organizations that could put their ill-gotten income at risk, and possibly risk their extradition to the United States.

The Venezuelan military leaders who are not impeded by their own corruption from defending democracy and the constitution must include in their calculations the Cuban Intelligence agents whom President Hugo Chavez, and his successor Nicolas Maduro, have permitted to become embedded within Venezuelan military structures to maintain a socialist regime in power.¹⁸ Within the military, Venezuela's Minister of Defense Vladimir Padrino Lopez briefly seemed to present himself as a moderate who could work with Venezuelan civil society in a possible transition back to democracy, but his January 2015 authorization of the use of deadly force against protesters¹⁹ has undercut his ability to build bridges to the opposition.²⁰

Beyond Venezuela's domestic politics and the potential role of its military as guardian of public and sometimes constitutional order, even international avenues to redress Venezuela's growing crisis appear to be limited. Objections by "Bolivarian Socialist states" and self-interested parties such as Brazil to the role of the United States in advancing democratic governance in the region has prevented the Organization of American States (OAS) from playing a significant role in addressing the crisis. The Community of Latin American and Caribbean States (CELAC) lacks institutional mechanisms to meaningfully impact the crisis beyond serving as a forum within which the leaders of the region can converse. While, by contrast, UNASUR has somewhat more institutional capability than CELAC, an attempt by the organization in 2014 to create a path to a peaceful transition in the country failed,²¹ and more forceful interventionism seems to go against the regional tradition of noninterference, even in the face of an impending disaster that impacts neighboring states.

Implications for the United States.

From a U.S. perspective, the danger presented by Venezuela arises from the confluence of four factors:

1. the political stalemate that makes it improbable that Venezuela will resolve the crisis on its own, or with assistance from its neighbors, before becoming much worse,

2. the near total destruction of food and consumer goods production capability during 16 years of Bolivarian socialism, which will magnify the human consequences and associated level of desperation and aggression as the crisis deepens,
3. the strategically important geographical position of the country as a conduit for U.S. and Europe-bound drugs, a refuge for Colombian terrorist groups, and the location of vast petroleum reserves that also extend into the territory and waters of neighboring states such as Guyana and Trinidad and Tobago, and
4. the role of Venezuela as a point of entry into the region for multiple extra-hemispheric actors with varying strategic interests in conflict with those of the United States, including the People's Republic of China, Russia, and Iran.

The interaction of the first two factors suggest that the situation may degenerate into economic collapse and political chaos, possibly with widespread hunger, disease, and violence between people desperate to survive and a narco-dependent government desperate to retain control. Scarcity of basic food and medical items has reportedly reached 60 percent, with incidents such as the robbery of supply trucks.

Even beyond political protests, as the conditions deteriorate, the military will have to use increasing force to maintain order. Some in Venezuela are already talking about a repeat of the widespread violence and chaos that occurred in the country in 1989, known as the “Caracazo,” in which thousands may have died, and which ultimately contributed to two attempted coup d'états and the eventual removal of Venezuelan president Carlos Andrés Pérez on charges of illegally giving money to Nicaraguan President Violeta Chamorro.

In the event Venezuela descends into violence and chaos, neighbors such as Colombia, Guyana, and Brazil, and nearby Caribbean states such as Aruba, Curacao, Bonaire, and Trinidad and Tobago will be forced into the expensive and economically suboptimal task of increasing border control to manage the spillover challenges from refugees, terrorist violence, and criminality.

Similarly, the United States and Europe will have to dedicate increasing effort against drug shipments originating in Venezuela, as well as expanding efforts to bolster overwhelmed Caribbean and Central American security forces against the criminality that the expansion of these flows will foster in the region. Ironically, in this dynamic, as more Venezuelan officials such as Capitan

Leamsy Salazar cooperate with U.S. authorities regarding the criminal activities of former colleagues, it will likely increase instability within the regime, sowing mistrust among the Venezuelan elite, as each wonders who will betray them to save themselves.

At the same time, as the number of international indictments expand and more Venezuelan officials are added to the U.S. Treasury Department's Office of Foreign Assets Control (OFAC) list, Venezuela's political and military elites will find themselves increasingly trapped within the country's borders, with the increasing realization that their real estate in Miami and their anonymous bank accounts, and thus their future and that of their families, are indeed at risk. At the same time, the increase in foreign monitoring and isolation of the country will also make it less practical for organized crime to use it as a drug transit zone, further sharpening the competition between criminal elites chasing declining revenues.

Thus, in the end, fear of U.S. law enforcement, rather than principled opposition or foreign intervention, may be what prompts Venezuela's Bolivarian elites to turn against each other in a bloody and disorderly conflict, defying conventional wisdom regarding the pacifistic nature of the Venezuelan people.

The Path Forward.

Despite the grim scenario painted by the forgoing analysis, it is not in the U.S. strategic interest to intervene in Venezuela. Doing so would probably cause more serious damage to U.S. relationships in the region, and to its strategic position globally, than it would benefit stability and law and order in the region. Nor, in considering the lives that would be lost and the chaos potentially unleashed by such an invasion, is it clear that U.S. intervention would generate a net benefit from a humanitarian standpoint. Intervention would also likely drive other nations of the hemisphere into a deeper embrace of extra-regional powers such as China and Russia, and would move the region one step further from democratic self-governance.

Short of a military intervention, the United States can and should recognize the consequences of the likely continued degeneration of the situation in Venezuela, and work with regional partners and institutions to prepare for and mitigate its consequences. Although the United States is already working with regional partners to deal with drug flows coming out of the country and its use as a criminal sanctuary for groups such as the *Fuerzas armadas revolucionarias de Colombia* (FARC),²² organizations such as U.S. Southern Command, the U.S. Coast Guard, and the Joint

Interagency Task Force South should also prepare for expanded efforts as the situation in Venezuela deteriorates. Actions that might become necessary include strengthening of the air and maritime shield to intercept drugs coming north into the Caribbean, to Jamaica, the Dominican Republic, and Puerto Rico, and across to Central America, to the Atlantic Coast of Panama, Costa Rica, Nicaragua, and Honduras. Although Cuba will likely have very mixed feelings concerning an expanded U.S. maritime security presence in the Caribbean Basin, drug interdiction may create an unexpected opportunity for security cooperation between the United States and Cuba as well.

The United States may further need to help Colombia with the resources and technology to assist the country to prepare for waves of refugees, as millions of increasingly marginalized Colombians currently living in Venezuela are forced to return. It may further become necessary for the United States to help Colombia control its eastern border, if spreading lawlessness in Venezuela creates a de facto sanctuary in which rebels fighting the government can continue to operate, putting into jeopardy the ongoing Colombian peace process.

The United States may also need to strengthen security cooperation with the newly elected democratic government of Guyana, as the situation in its neighbor to the West deteriorates. The Maduro regime has recently asserted new territorial claims over waters defined by the border between the two states, where a team led by Exxon-Mobil, exploring with the authorization of the Guyanese government, has found evidence of potentially significant offshore oil deposits.²³ While the issue may ultimately need to be settled by international arbitration, there may be an opportunity for the United States to work with the OAS to provide security assurances that permit the unencumbered exploration and development of the fields until the matter can be definitively resolved by an appropriate international tribunal. The United States should not, however, deploy its own warships to the zone, since doing so would probably only inflame the situation and be exploited by Venezuela for propaganda purposes.

As U.S. authorities build criminal cases against Venezuelan officials, the U.S. Government should also seek, where possible, to work with Chinese and other foreign interests in the country to assure them that cooperation of Chinese institutions such as International Commerce Bank of China with international law enforcement will not necessarily undermine the Chinese position in the country, but rather, bolster its legitimacy, and indeed, that such cooperation is part of the transparency and rule of law required for Chinese financial institutions to participate in the international system.

Going one step further, in April 2015, the Chinese committed to a new \$5 billion loan for Venezuela, which appears destined to go into the nation's foreign currency reserves. As with the \$4 billion disbursed by China to Hugo Chavez in the run-up to the November 2012 Venezuelan presidential election,²⁴ the new Chinese funds will likely be disbursed in the fall of 2015, available for the Maduro regime to use prior to the December 6, 2015 mid-term elections to purchase large quantities of consumer goods so that it can assert that it has solved the problem of shortages, and thus, preserve its majority in the Venezuelan national assembly. Yet, such electoral trickery will only postpone Venezuela's collapse. China, famous for taking the "long view," would be better advised to delay the disbursement, thus betting the money on the Venezuelan opposition, and in the process, increasing the odds of retaining its commercial position in the country following the collapse of the present government.

In preparing for the coming Venezuelan crisis, the United States should also attempt, wherever possible, to involve the OAS. While countries such as Brazil will prefer multilateral solutions that are led by UNASUR and thus exclude the United States, few security issues show better than that of Venezuela how the United States is an inherent part of the security environment of the region. The United States should thus be prepared to work with Brazil on issues such as the nation's own shared border with Venezuela, and potentially find ways to collaborate with Brazilian forces in other aspects of the Venezuelan crisis, while at the same time making it clear that Brazilian attempts, in conjunction with ALBA governments, to exclude the United States from a role in addressing the Venezuela crisis would be counterproductive.²⁵

The collapse of Venezuela is a tragedy for the Venezuelan people, Venezuela's neighbors, and for all of the countries in the region. Yet for the United States, it is also an opportunity to strengthen its role in maintaining the democracy, stability, and development of the hemisphere. If the United States acts with prudence and generosity in the present crisis, it can demonstrate its appreciation of the ties of commerce, geography, and family that bind it to the region.

ENDNOTES

1. See José De Córdoba and Juan Forero, "Funcionarios venezolanos, bajo sospecha de convertir el país en un centro global de la cocaína" ("Venezuelan Officials Suspected of Converting the Country into a Global Cocaine Hub"), *The Wall Street Journal*, May 18, 2015, available from lat.wsj.com/articles/SB11038535837373284215604580648993253798612?tesla=y.

2. Thirteen individuals in Venezuela, and 12 organizations registered there, are now subject to restrictions by the U.S. Treasury Department OFAC, with the number likely to grow as ongoing investigations progress. See Office of Foreign Assets Control, Sanctions List, Washington, DC: U.S. Treasury Department, available from <https://sdnsearch.ofac.treas.gov/>, accessed June 17, 2015.

3. The indictments came after Noriega had openly challenged the United States, including his government's detention and beating of a U.S. military officer, among other incidents.

4. Of note, for example, was the visit by former Spanish President Felipe Gonzalez, who received a tacit gesture of support for his visit from Colombian President Manuel Santos, who sent a presidential jet to Venezuela to pick up Gonzalez and bring him to Colombia. See "Venezuela's Maduro Flies Off the Handle," *Latin News Daily*, June 10, 2015, available from www.latinnews.com/component/k2/item/65198.html?period=June+2015&archive=3&cat_id=798238%3Avenezuelas-maduro-flies-off-the-handle&Itemid=6.

5. See, for example, "Pastrana y Quiroga visitan a alcalde opositor preso en su casa" ("Pastrana and Quiroga Visit Imprisoned Opposition Mayor in His Home"), *Milenio*, May 28, 2015, available from www.milenio.com/internacional/Pastrana-Quiroga-visit-an-alcalde-opositor_o_526147735.html.

6. See Patrick Duddy, "Venezuela's Crisis, U.S. Sanctions and the UNASUR Reaction," *American Diplomacy*, April 2015, available from www.unc.edu/depts/diplomat/item/2015/0106/op/op04duddy_venezuela.html.

7. See, for example, Patrick Duddy, "Political Unrest in Venezuela," Contingency Planning Memorandum No. 16, Washington, DC: Council on Foreign Relations, September 2012, available from www.cfr.org/venezuela/political-unrest-venezuela/p28936.

8. One oil industry expert estimates that if PdVSA plans for the expansion of production pre-dating the administration of Hugo Chavez had been executed, Venezuela would currently be producing approximately 5 million barrels of oil per day.

9. Ernesto J. Tovar, "Pdvsas elevó 7.5% despachos por acuerdo con China" ("PdVSA Increased Oil Deliveries 7.5%, in Accordance with Agreement with China") *El Universal*, June 24, 2014, available from www.eluniversal.com/economia/140624/pdvsas-elevo-75-despachos-por-acuerdo-con-china.

10. Russ Dallen, *Latinvest Weekly*, May 26, 2015, available from <https://www.scribd.com/doc/266632291/Latinvest-Venezuela-Weekly-26-May-2015>.

11. Andrew Rosati, "Venezuela Reduces Lines by Trimming Shoppers, Not Shortages," *Bloomberg*, January 12, 2015, available from www.bloomberg.com/news/articles/2015-01-12/venezuela-lines-shorten-as-police-reduce-shoppers-not-shortages.

12. *Dolar Today*, available from <https://dolartoday.com/>, accessed June 18, 2015.

13. Andrew Rosati, "Venezuela Pushing 200% as Rationing Deepens," *Bloomberg*, April 10, 2015, www.bloomberg.com/news/articles/2015-04-10/bofa-sees-venezuelan-inflation-spiraling-to-as-much-as-200-.

14. "Survey: Maduro's popularity down to 22%," *El Universal*, January 2, 2015, available from www.eluniversal.com/nacional-y-politica/150102/survey-maduros-popularity-down-to-22.
15. "FACT SHEET: Venezuela Executive Order," Washington, DC: The White House, March 9, 2015, available from <https://www.whitehouse.gov/the-press-office/2015/03/09/fact-sheet-venezuela-executive-order>.
16. Such differences were in evidence during the organization's May 2015 primary elections to select candidates for the fall 2015 Venezuelan midterm elections. See "MUD Unsure of Tactics Ahead of Venezuela Midterms," *Latin News Daily*, May 19, 2015, available from www.latinnews.com/component/k2/item/64926.html?period=May+2015&archive=3&cat_id=798038%3Amud-unsure-of-tactics-ahead-of-venezuela-midterms&Itemid=6.
17. Andres Oppenheimer, "In Venezuelan Elections, Too Many Dead Vote," *Miami Herald*, March 28, 2015, available from www.miamiherald.com/news/local/news-columns-blogs/andres-oppenheimer/article16515473.html.
18. Simon Romero, "Venezuela's Military Ties with Cuba Stir Concerns," *The New York Times*, June 14, 2010, available from www.nytimes.com/2010/06/15/world/americas/15venez.html?_r=0.
19. Roger Noriega, "Venezuela's Political Crisis Grows more Explosive," *Miami Herald*, February 4, 2015, available from www.miamiherald.com/opinion/op-ed/article9298985.html.
20. Alexandra Ulmer and Deisy Buitrago, "Venezuela Stages Military Exercise to Counter U.S. 'Threat'," Reuters, March 15, 2015, available from www.reuters.com/article/2015/03/15/us-venezuela-usa-military-idUSKBN0MA0WN20150315.
21. "UNASUR Mediators Leave Venezuela Unable to Re-Launch Peace Negotiations," *Mercopress*, May 21, 2014, available from en.mercopress.com/2014/05/21/unasur-mediators-leave-venezuela-unable-to-re-launch-peace-negotiations.
22. See, for example, "FARC in Venezuela," *Insight Crime*, available from www.insightcrime.org/venezuela-organized-crime-news/farc-venezuela, accessed June 17, 2015.
23. "Venezuela Demands Guyana Halt 'Imperial' Oil Exploration," Reuters, June 9, 2015, available from www.reuters.com/article/2015/06/10/us-guyana-venezuela-oil-idUSKBN0OP25J20150610.
24. Charlie Devereux, "China Bankrolling Chavez's Re-Election Bid with Oil Loans," *Bloomberg*, September 26, 2012, available from www.bloomberg.com/news/articles/2012-09-25/china-bankrolling-chavez-s-re-election-bid-with-oil-loans.
25. The June 2015 meeting in Haiti, brokered by Brazil, between U.S. special envoy Tom Shannon and Diosdado Cabello may be an example of the possibility for U.S.-Brazil collaboration to resolve the crisis. See "Maduro Says US, Venezuela Opening Channel to 'Regularize' Relations," *Caribbean Journal*, June 15, 2015, available from caribjournal.com/2015/06/15/maduro-says-us-venezuela-opening-diplomatic-channel-to-regularize-relations/#.

The views expressed in this Strategic Insights article are those of the author and do not necessarily reflect the official policy or position of the Department of the Army, the Department of Defense, or the U.S. Government. This article is cleared for public release; distribution is unlimited.

Organizations interested in reprinting this or other SSI and USAWC Press articles should contact the Editor for Production via e-mail at SSI_Publishing@conus.army.mil. All organizations granted this right must include the following statement: “Reprinted with permission of the Strategic Studies Institute and U.S. Army War College Press, U.S. Army War College.”